

Daily Note

XI TO BUILD FORTRESS CHINA

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- **Xi Jinping doubles down on Party strengthening, technology and security**
- **Rhetoric on Taiwan suggests China will continue to play the long game**
- **Slower growth and more volatile policy-driven markets are the new normal**

Yesterday Xi Jinping delivered the 20th Party Congress Work Report. His speech lasted a full two hours and the complete, dense text of the report came to almost 60 pages. This document will guide the CCP and, by extension, China government policy for at least the next five years. In 2012, the anti-corruption campaign was foreshadowed. In 2017 Xi laid the groundwork for “Common Prosperity.” And in 2022 we see a doubling down on existing Xi policies, such as “high-quality development” and “Common Prosperity.” There are new sections to the report on technology and national security, even heavier emphasis is placed on innovation and efforts to build “fortress China” in the face of rising threats (see appendix for full details). Rhetoric on Taiwan suggests that the Chinese leadership still believes “time is on China’s side”. [A new political economic model and source of Party performance legitimacy are slowly emerging](#); however, there are many contradictions between growth/security/welfare/Party strengthening objectives as well as significant structural headwinds, all of which makes transitioning to a new political economy very challenging. The longer-term prospect is slower growth, greater state intervention and even more policy-driven markets. [In the short term, there are no signs of any change on stimulus or Covid.](#)

The Work Report confirmed China’s commitment to “high-quality development” and the goal of building a “medium developed country” by 2035. In practice, the 2035 target equates to doubling 2020 GDP by that time and requires an average annual growth rate of 4.7% yoy. All without relying on “low-quality” growth drivers such as property and traditional infrastructure spending. We think the average growth rate over this period will be ~3% with risks to the downside, as the [three Ds \(debt \[property\], deglobalization and demographics\)](#) push China into a structural slowdown. To achieve even this lower growth rate will still be challenging: China will need to run higher central and local government deficits with state spending targeted at tech and social areas.

Against the background of this ambitious target, Xi Jinping acknowledged the economic and political headwinds to China’s development prospects, noting that “black swan” and “grey rhino” events could occur at any time. Strikingly, Xi also noted “There are still many tough points to blocking reform in key areas; there are many challenges in the ideological field, and the gap between urban and rural development and income distribution is still large. The masses face many problems in employment, education, medical care, childcare, elderly care, housing and other aspects.” Signifying that reform efforts across multiple sectors and societal aspects are far from complete.

As widely anticipated, “Common Prosperity” plays a key role in the report: there is greater emphasis on improving income distribution specifically to boost lower and middle class earnings and expanding welfare and social security programmes. Increasing the household share of national income – something that economists have been recommending for some time – was included in the report for the first time, a nod towards attempted consumption-oriented rebalancing. In general, the messaging on income and welfare received greater prominence but was largely unchanged, and we expect reform in these areas to advance only marginally faster than over the preceding five years, delivering a modest boost to consumption.

Property was touched upon only very briefly. A new line on “standardizing the wealth accumulation mechanism” is likely an implicit nod to a tax on property – the main source of wealth in China. A national property tax is a known goal of Xi’s; however, current sector weakness means explicit acknowledgement was too risky. The status quo of “housing for living, not speculation” was maintained.

Two entirely new sections – on technology and national security – were added to the Work Report. Introducing new parts to the document is a sign of very strong policy momentum. Technology is central to both economic and national security goals. Xi reiterated targets to build self-sufficiency in key inputs and for China to push to the forefront of developing technologies. The strategy to achieve innovation remains one of mobilizing national resources. By picking sectoral winners and lowering the cost of inputs (human, financial, data, infrastructure) Beijing hopes to foster development. Xi also committed to more policies to open and welcome foreign investment. Given the accelerating efforts at US tech decoupling, Beijing is likely to roll out the red carpet in an attempt to bring in foreign capital and IP before Washington cuts off access. Throwing trillions of dollars and millions of engineers at projects will produce results. But the misallocation of resources will lower aggregate productivity in the short to medium term; the impact on the longer-term productivity gains arising from this policy will depend on technology breakthroughs and economy-wide implementation. Consumer tech was not mentioned, but we expect infrastructure like regulation of monopoly internet platforms to continue.

National security was the other new section added to the Work Report. Under Xi, national security has become an overarching issue, touching on all aspects of Chinese society. The section, titled “Modernize the national security system and capabilities and resolutely safeguard national security and social stability”, emphasizes foreign and domestic factors. Of most relevance to investors is the following statement: “We will improve the anti-sanctions, anti-involvement and anti-‘long-arm jurisdiction’ mechanisms.” This sentence in effect calls for accelerated efforts to build a “fortress China” capable of withstanding US-led external pressure. Efforts at active import substitution, financial decoupling and securing commodities from non-Western suppliers will be stepped up.

Finally, the rhetoric on Taiwan was broadly unchanged. With Xi emphasizing the inevitability of “reunification” with time on China’s side. The report noted that “the historical wheel of national reunification and national rejuvenation is rolling forward”. In a warning to the US, the report noted that China would “never give up the use of force and reserve the option of taking all necessary measures. This is aimed at the interference of external forces.” We see no acceleration of an invasion timeline, but tensions will certainly increase around the island.

Xi Jinping’s doubled-down on China’s existing policy mix. Further details will emerge as personnel appointments are made and the post-Congress press conferences are held. Upside surprises are unlikely: the emerging Common Prosperity political economy, equates to slower growth and more volatile policy-driven markets.

Party Congress Work Reports

	16th Party Congress	17th Party Congress	18th Party Congress	19th Party Congress	20th Party Congress
Date	8-14 November 2002	15-21 October 2007	8-14 November 2012	18-24 October 2017	16-22 October
Total Characters	26,660	28,132	28,549	31,622	32,498
Title and Introduction	Build a Well-off Society in an All-round Way and Create a New Situation in Building Socialism with Chinese Characteristics (414)	Hold High the Great Banner of Socialism with Chinese Characteristics and Strive for New Victories in Building a Moderately Prosperous Society in all respects (471)	Firmly March on the Path of Socialism with Chinese Characteristics and Strive to Complete the Building of a Moderately Prosperous Society in All Respects (423)	Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era (454)	Hold high the Great Banner of Socialism with Chinese Characteristics and Work Together to Build a Socialist Modern Country in All Respects (329)
Past 5 Years	1. The Work of the Past Five Years and Basic Experience of 13 Years (4,321)	1. The Work of the Past Five Years (2,092)	1. Our Work in the past Five Years and the Basic Experience We have Gained in the Last Ten Years (3,957)	1. The Past Five Years: Our Work and Historic Change (4,987)	1. Work in the past Five Years and Great Changes in the Decade of the New Era (6,832)
Ideological Foundations	2. Implement the Important Thought of the Three Represents in an All Round Way (3,526)	2. The Great Historical Course of Reform and Opening up (3,062) 3. Thoroughly Apply the Scientific Outlook on Development (3,262)	2. Achieving New Victory for Socialism with Chinese Characteristics (3,416)	2. The New Era: The Historic Mission of the Communist Party of China (2,354) 3. The Thought on Socialism with Chinese Characteristics for a New Era and the Basic Policy (4,193)	2. Open Up a New Realm of Sinicization and Modernization of Marxism (2,374)
Societal Development Goal	3. The Objectives of Building a Well-Off Society in an All-Round Way (1,452)	4. New Requirements for attaining the Goal of Building a Moderately Prosperous Society in All Respects (1,184)	3. The Goal of Completing the Building of a Moderately Prosperous Society in All Respects and Deepening Reform and Opening Up in an All-Round Way (1,409)	4. Securing a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Embarking on a Journey to Fully Build a Modern Socialist China (1,163)	3. The Mission and Task of the Communist Party of China in the New Era and New Journey (2,937)
Economic and Science Development	4. Economic Development and Restructuring (5,173)	5. Promoting Sound and Rapid Development of the National Economy (3,394)	4. Accelerating the Improvement of the Socialist Market Economy and the Change of the Growth Model (2,730)	5. Applying a New Vision of Development and Developing a Modernised Economy (2,801)	4. Accelerate the Construction of a New Development Pattern and Focus on Promoting High Quality Development (2,445) 5. Implement the Strategy of Rejuvenating the Country through Science and Education, Strengthen the Talent Support for Modernization (1,618)
Political Development	5. Political Development and Restructuring (3,848)	6. Unswervingly Developing Socialist Democracy (2,844)	5. Keeping to the Path of Making Political Advance with Chinese Characteristics and Promoting Reform of the Political Structure (2,831)	6. Improving the System of Institutions through Which the People Run the Country and Developing Socialist Democracy (2,438)	6. Develop People's Democracy throughout the Process and Ensure that People are Masters of the Country (1,499) 7. Adhere to the Rule of Law in a Comprehensive Way and Promote the Construction of China under the Rule of Law (1,107)

Cultural Development	6. Cultural Development and Restructuring (2,193)	7. Promoting Vigorous Development and Prosperity of Socialist Culture (1,843)	6. Developing a Strong Socialist Culture in China (1,833)	7. Building Stronger Cultural Confidence and Helping Socialist Culture to Flourish (1,874)	8. Promote Cultural Self-Confidence and Self-Improvement, and Create New Brilliant Socialist Culture (1,556)
Social Development	N/A	8. Accelerating Social Development with the Focus on Improving the People's Livelihood (2,219)	7. Strengthening Social Development by Improving the People's Wellbeing and Making Innovations in Management (2,493)	8. Growing Better at Ensuring and Improving People's Wellbeing and Strengthening and Developing New Approaches to Social Governance (2,546)	9. Improve People's Wellbeing and Quality of Life (1,601)
Environment	N/A	N/A	8. Making Great Efforts to Promote Ecological Progress (1,350)	9. Speeding up Reform of the System for Developing an Ecological Civilization, and Building a Beautiful China (1,199)	10. Promote Green Development and Promote Harmonious Coexistence between Human and Nature (1,093)
PLA and Defence	7. National Defence and Army Building (758)	9. Opening up New Prospects for Modernisation of National Defence and the Armed Forces (928)	9. Accelerating the Modernisation of National Defence and the Armed Forces (1,006)	10. Staying Committed to the Chinese Path of Building Strong Armed Forces and Fully Advancing the Modernisation of National Defence and the Military (961)	11. Modernize the National Security System and Capabilities, and Resolutely Safeguard National Security and Social Stability (1.141) 12. Achieve the Centenary Goal of Building the Armed Forces and Create a New Situation for the Modernization of National Defense and Armed Forces (1,141)
Hong Kong, Macao and Taiwan	8. 'One Country, Two Systems' and Complete National Reunification (1,233)	10. Carrying Forward the Practice of 'One Country, Two Systems' and Advancing the Great Cause of Peaceful National Reunification (1,231)	10. Enriching the Practice of 'One Country, Two Systems' and Advancing China's Reunification (1,201)	11. Upholding 'One Country, Two Systems' and Moving toward National Reunification (1,106)	13. Adhere to and Improve "One country, Two systems" and Promote the Reunification of the Motherland (1,130)
Foreign Relations	9. The International Situation and Our External Work (1,243)	11. Unswervingly Follow the Path of Peaceful Development (1,589)	11. Continuing to Promote the Noble Cause of Peace and Development of Mankind (1,461)	12. Following a Path of Peaceful Development and Working to Build a Community with a Shared Future for Mankind (1,440)	14. Promote World Peace and Development and Build a Community with a Shared Future for Mankind (1,592)
Party Building	10. Strengthen and Improve Party Building (4,234)	12. Comprehensively Carrying Forward the Great New Undertaking to Build the Party in a Spirit of Reform and Innovation (4,013)	12. Making Party Building More Scientific in All Respects (4,439)	13. Exercising Strict Governance over the Party and Improving the Party's Ability to Govern and Lead (4,106)	15. Unswervingly and Strictly Govern the Party in an All-Round Way, and Further Advance the Great New Project of Building the Party in the New Era (3,827)

Source: TS Lombard